Great Lakes Pilotage Authority | Administration de pilotage des Grands Lacs

GREAT LAKES PILOTAGE AUTHORITY

202 Pitt Street, 2nd floor

Cornwall, Ontario K6H 5R9

UNAUDITED FINANCIAL STATEMENTS

Quarterly Results

Nine months to September 30, 2012

Statement of Management Responsibility:

Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and for such internal controls as management determines is necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of the operations and cash flows of the corporation, as at the date of and for the periods presented in the quarterly financial statements.

Robert Lemire
CEO

Réjean Ménard
Secretary/Treasurer

Cornwall, Ontario
November 30, 2012

Canada

GREAT LAKES PILOTAGE AUTHORITY

Statement of Financial Position

(in thousands)

Unaudited

	September 30, 2012	December 31, 2011
ASSETS		
Current		
Cash and cash equivalents	$ -	$ 1,237
Investments	900	2,369
Accounts receivable	2,679	2,405
	3,579	6,011
Non Current		
Property and equipment	695	95
Intangible asset	290	9
	$ 4,564	$ 6,115
LIABILITIES		
Current		
Bank indebtedness and bank overdraft	$ 411	$ -
Accrued salaries and benefits	3,579	5,351
Other accounts payable and accrued charges	86	351
Employee future benefits	38	116
	4,114	5,818
Non-current		
Employee future benefits	3,603	3,338
	7,717	9,156
EQUITY		
Accumulated deficit	(3,153)	(3,041)
	$ 4,564	$ 6,115

GREAT LAKES PILOTAGE AUTHORITY

Statement of Operations and Comprehensive Income
(in thousands)

Unaudited

	3 months to September 30, 2012	Year to date September 30, 2012	3 months to September 30, 2011	Year to date September 30, 2011
Revenues				
Pilotage charges	$ 6,300	$ 13,184	$ 5,967	$ 13,092
Dispatching and Pilot boat income	14	29	13	29
Interest and other income	-	3	-	1
	6,314	13,216	5,980	13,122
Expenses				
Pilot's salaries and benefits	4,580	9,254	4,235	9,252
Transportation and travel	583	1,276	573	1,300
Operation staff salaries and benefits	323	740	320	716
Pilot Boat Services	269	560	299	632
Administration staff salaries and benefits	225	641	229	635
Utilities, materials and supplies	28	140	38	134
Amortization	62	150	14	41
Rentals	27	77	27	77
Portable Pilot Unit and navigation software	25	64	35	76
Purchased dispatching services	14	32	14	34
Financing costs and other charges	5	28	3	17
Professional and special services	7	62	15	53
Communications	17	43	16	38
Repairs and maintenance	51	136	7	20
Pilot training costs	-	125	-	85
	6,216	13,328	5,825	13,110
Net income (loss) and comprehensive income for the quarter	$ 98	$ (112)	$ 155	$ 12
Accumulated deficit at beginning of the period	(3,251)	(3,041)	(3,607)	(3,464)
Accumulated deficit at end of the quarter	$ (3,153)	$ (3,153)	$ (3,452)	$ (3,452)

GREAT LAKES PILOTAGE AUTHORITY

Statement of Cash Flows
(in thousands)

Unaudited

	3 months to September 30, 2012	Year to date September 30, 2012	3 months to September 30, 2011	Year to date September 30, 2011
Operating activities				
Profit and comprehensive income (loss) for the period	$ 98	$ (112)	$ 155	$ 12
Items not affecting cash:				
Employee future benefits	80	187	21	203
Amortization	62	150	14	41
Changes in non-cash working capital items:				
Decrease (Increase) in accounts receivables and prepaids	240	(275)	665	437
Increase (decrease) in accrued salaries and benefits	1,736	(1,775)	1,490	(773)
Increase (decrease) in other accounts payable and accrued charges	31	(262)	58	(159)
Cash provided by operating activities	2,247	(2,087)	2,403	(239)
Investing activities				
Disposal of investments	-	3,120	-	1,201
Purchase of investments	(900)	(900)	(2,060)	(2,060)
Acquisition of property and equipment and intangible assets	-	(1,030)	(7)	(14)
Cash used in investing activities	(900)	1,190	2,067)	(873)
Financing activities				
Proceeds from bank indebtedness	-	-	-	-
Re-payment of bank indebtedness	-	-	-	-
Net cash flows by (used in) providing financing Activities	-	-	-	-
Cash and cash equivalents:				
Net Increase (decrease) in cash during the period	$ 1,347	$ (897)	336	$ (1,112)
Balance beginning of period	(1,758)	486	(642)	806
Cash end of period	$ (1,758)	$ (1,758)	$ (306)	$ (306)
Represented by:				
Cash (bank overdraft)	$ (411)	$ (411)	$ (306)	$ (306)
Cash equivalents	-	-	-	-
Supplemental information				
Interest paid during the year	$ 2	$ 19	$ 7	$ 7

Notes to the Unaudited Financial Statements

1. Authority and objectives

The Great Lakes Pilotage Authority, Ltd. was established in February 1972 pursuant to the *Pilotage Act*, incorporated as a limited company in May 1972, and was continued under the *Canada Business Corporations Act*. Until October 1st, 1998, it operated under the name of Great Lakes Pilotage Authority, Ltd. and was a subsidiary of the St. Lawrence Seaway Authority. Pursuant to the *Marine Act*, which received Royal Assent on June 11, 1998, the name of the Authority was changed to Great Lakes Pilotage Authority and the Authority was deemed to have been established under subsection 3(1) of the *Pilotage Act*. The Authority is a Crown corporation listed in Schedule III, Part I of the *Financial Administration Act*.

The objectives of the Authority are to establish, operate, maintain and administer a safe and efficient pilotage service within designated Canadian waters.

The Authority is exempt from any income taxes.

2. Basis of presentation

(a) Declaration of conformity

These financial statements, including comparatives, have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(b) Basis of measurement

The financial statements have been prepared at historical cost except for financial assets classified as at fair value through profit and loss, which are measured at fair value.

3. Significant accounting policies

The significant accounting policies are as follows:

(a) Cash and cash equivalents

Cash equivalents represent short-term, highly liquid investments and consist of Canadian dollar deposits held by a Canadian chartered bank earning a weighted average interest rate of 1% (2010 - 1%).

(b) Investments

The objective of the Authority's investment policy is to maximize the investment rate of return in a Government of Canada guaranteed bond portfolio.

The Authority has elected to designate all investments as fair value through profit and loss ("FVTPL"). Consequently, investments are initially recorded at fair value, and subsequently re-measured to fair value at each reporting date. Fair value is based on the quoted price of the securities at the reporting date. Purchases and sales of investments are recognized on a settlement date basis.

Realized gains and losses from the interest received and from sale of investments are recognized in interest and other income in the period realized. Unrealized gains and losses from all other fluctuations in fair value are recognized in interest and other income in the period in which they occur.

(c) Property and equipment

Property and equipment are recorded at cost. Amortization of property and equipment is calculated on a straight-line basis and is based on the estimated useful lives of the assets as follows:

Asset category	Estimated useful life
Buildings	20 years
Furniture	10 years
Leasehold improvements	10 years
Communication and computer equipment	5 years

Depreciation methods, useful lives and residual values are reviewed at each year end and adjusted for the future.

(d) Intangible asset

Software is recorded at cost. Amortization of software is calculated on a straight-line basis and is based on the estimated useful life of the asset as follows:

Asset category	Estimated useful life
Software	5 years

(e) Pension benefits

Substantially all of the employees of the Authority are covered by the public service pension plan (the "Plan"), a contributory defined benefit plan established through legislation and sponsored by the Government of Canada. Contributions are required by both the employees and the Authority to cover current service cost. Pursuant to legislation currently in place, the Authority has no legal or constructive obligation to pay further contributions with respect to any past service or funding deficiencies of the Plan. Consequently, contributions are recognized as an expense in the year when employees have rendered service and represent the total pension obligation of the Authority.

(f) Severance benefits

Employees are entitled to severance benefits, as provided for under labour contracts and conditions of employment. The cost of the severance benefits earned by employees is determined annually on an actuarial basis using the projected unit credit method prorated with years of credited service and management's best estimate assumptions, such as the discount rate, rate of salary increase, inflation, retirement ages of employees and other factors. The actuarial gain (loss) is recognized in the profit or loss.

(g) Retirees' death benefits

Former employees who retired prior to 1999 have been granted a death benefit. The liability amount for this benefit is determined annually on an actuarial basis using the projected unit credit method. The actuarial gain (loss) is recognized in the profit or loss.

(h) Employee benefits

The Authority's short-term employee benefits which include compensated absences, are evaluated on an undiscounted basis and are expensed as the related services are rendered.

(i) Effects of changes in foreign exchange rate

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the statement of financial position date. Revenues and expenses denominated in foreign currencies are translated into Canadian dollars at monthly average exchange rates. All exchange gains and losses are included under interest and other income in profit and loss for the year.

(j) Revenue recognition

Revenues earned from pilotage charges, dispatching and pilot boat income are recognized as services are rendered. Interest and other income are recognized using the effective interest method as they are earned.

(k) Financial assets

Financial assets are classified into one of four categories:

- Fair value through profit or loss ("FVTPL");
- Held-to-maturity ("HTM");
- Available for sale ("AFS"); and,
- Loans and receivables.

The classification is determined at initial recognition and depends on the nature and purpose of the financial asset. The Authority has financial assets in two categories, FVTPL and loans and receivables.

(i) FVTPL financial assets

Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated as FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future;
- It is a part of an identified portfolio of financial instruments that the Authority manages and has an actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

Financial assets classified as FVTPL are stated at fair value with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized incorporates any dividend or interest earned on the financial asset.

Cash, cash equivalents and investments are classified as FVTPL. Measuring these investments at fair value provides better alignment between the accounting results and how the portfolio is managed.

Derivative financial instruments are financial contracts that derive their value from changes in an underlying variable. The Authority does not enter into derivative financial instruments for trading or speculative purposes and does not apply hedge accounting to its derivatives.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at the fair value and subsequently carried at amortized cost less impairment losses. The impairment loss of receivables is based on a review of all outstanding amounts at period end. Bad debts are written off during the year in which they are identified.

Loans and receivables include accounts receivable. Due to the short-term nature of accounts receivable, their carrying values are deemed to approximate their fair values.

(iii) Effective interest method

The effective interest method calculates the amortized cost of a financial asset and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

(iv) Impairment of financial assets

Financial assets are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments; or
- It has become probable that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets, excluding accounts receivables, is directly reduced by the impairment loss. The carrying amount of accounts receivables is reduced through the use of an allowance account. When accounts receivable are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the resulting carrying amount of the financial asset cannot exceed what its amortized cost would have otherwise been at that date had the previous impairment loss never been recognized in the first place.

(v) Derecognition of financial assets

A financial asset is derecognized when:

- The contractual right to the asset's cash flows expire; or

- If the Authority transfers the financial asset and substantially all risks and rewards of ownership to another entity.

(l) Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. All of the Authority financial liabilities are classified as other financial liabilities.

(i) Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expenses over the corresponding period. The effective interest rate is the rate that exactly discounts estimated future cash payments over the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

The Authority has classified other accounts payable and accrued charges, bank indebtedness and bank overdraft and accrued salaries and benefits as other financial liabilities. Due to the short-term nature of these accounts, their carrying values are deemed to approximate their fair values.

(ii) Derecognition of financial liabilities

The Authority derecognizes financial liabilities when, and only when, the Authority's obligations are discharged, cancelled or they expire.

(m) Exchange of services

Exchange of services are recorded at the estimated fair value of the goods or services received. Revenues from exchange of services are recognized when the related services are rendered. Expenses resulting from exchange of services are recognized during the period when the related goods or services are provided by third parties.

(n) Lease Payments

All Authority leases and leased assets are not recognized on the statement of financial position since virtually all the risks and benefits associated with ownership of leased assets are not passed to the Authority.

Payments under operating leases are expensed on a straight line over the term of the lease.

Management's Discussion and Analysis for the Quarter ended September 30, 2012.

Traffic

The Authority operates in the St. Lawrence Seaway which closes in late December due to winter and re-opens in late March of each year. The 2012 navigation season opened on March 22.

Traffic Analysis for the 9 months to September 30, 2012 (Pilotage assignments)

District	Actual 2012	Budget 2012	Variance	Actual 2011	Variance
Cornwall District	1551	1525	2%	1645	- 6%
District #1/Lake Ontario	994	953	4%	1032	- 4%
District #2/District #3	1623	1597	2%	1642	- 1%
*Port of Churchill	23	32	- 28%	29	- 21%
Total	4191	4107	2%	4348	- 4%

* The Port operates from mid-July to late-October every year.

The Authority serviced ships transiting the St. Lawrence Seaway with the core industrial customers and has in 2012 also served as a critical safety valve by enabling cargoes from other jurisdictions to be quickly and efficiently rerouted during the periods of low water levels in the Mississippi, causing grains destined for the Gulf of Mexico to be rerouted through the Great Lakes-Seaway. The Authority's 2012 traffic is 4% less than 2011 mainly due to the increased 2011 traffic of ships carrying imported petroleum supplies to the Sarnia/Windsor region over the first few months of the year to ease the supply gap caused by scheduled plant maintenance by refineries. The 2012 traffic of ships carrying imported petroleum supplies is back to regular levels. The 2012 traffic levels are as budgeted. The Authority has seen increases from the 2011 traffic of ships carrying steel products to the Great Lakes due in large part to the economic recovery experienced in the U.S. and Canadian Great Lakes regions.

Financial Statistics

(000's)	Year to date September 30, 2012	Year to date September 30, 2011	Variance
Revenues	$ 13,216	$ 13,122	$ 94
Operating costs	12,379	12,155	(224)
Administration costs	949	955	6
Surplus (deficit)	$ (112)	$ 12	$ (124)
Pilotage assignments	4191	4348	(157)

For the 3rd quarter, the Authority has recorded a net gain of $98,000.

2012 Outlook and Strategic Issues

The Board of Directors and Senior Management held a two-day Strategic Planning exercise in Collingwood, Ontario on June 20-21, 2011. The Board adopted an Enterprise Risk Management program which will guide its activities in the future. Significant risks were identified and strategies were established to address and mitigate the effects of these risks.

Pilot numbers were reduced by 15% in 2009-2010 when traffic decreased by 42% in the 2008 and 2009 navigation season. In order to meet the 2012 traffic, the Authority plans to keep the same level of pilot numbers as 2011. The Authority has budgeted the 2012 traffic to be 5% less than 2011 and the current traffic forecast indicate no change to the budget. Traffic in 2010 and 2011 has rebounded and increased by 41% due in large part to the 2010 economic recovery in North America and Europe. Tariff increases for the 2013 to 2017 period are expected to be set at levels that will eliminate the accumulated deficit in the period and establish a reasonable operating surplus.

The Authority is now working with the Canadian shipowners in implementing training requirements and evaluation standards for issuing Pilotage Certificates. The Authority amended its Great Lakes Pilotage Regulations in 2011 to eliminate all exemptions for domestic vessels starting January 1, 2013. The Authority will be taking measures to grandfather individuals that are on the current exemption list so that they receive their Great Lakes Pilotage Certificate before the start of the 2013 navigation season.

The Authority has replaced at the start of the 2012 navigation season all Portable Pilotage Units (PPU) operated by the pilots in the performance of their duties. These PPU's have demonstrated that safety and efficiency of pilotage has increased over the last six years since the Authority funded the introduction of PPU's in the Great Lakes region.

The Authority is planning on maintaining a stable workforce for 2012 and has only one major capital expenditure planned which is the purchase of PPU's.

Appropriations

The Authority is prohibited from receiving Parliamentary appropriations as per section 36.01 of the Pilotage Act. The Authority has been financially self-sufficient since inception in 1972 and regularly endorses strategy that will ensure this strategic goal remains among the highest priority.